National Energy Board
Office national de l'énergie

Decision and Order

Trans Mountain Pipeline Company Ltd.

Incentive Toll Settlement for 2001 - 2005

March 2001

TMPL Tolls 2001-2005

National Energy Board

Decision and Order

In the Matter of

Trans Mountain Pipeline Company Ltd.

Applications dated 19 December 2000 and 16 February 2001 for Approval of Incentive Toll Settlement 2001 - 2005 and Final 2001 Tolls

March 2001

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Chapter 1

Background and Application

Trans Mountain Pipe Line Company Ltd.(TMPL)'s tolls for the years 1996 to 2000 were calculated pursuant to the Board Order TO-2-96 and in accordance with the methodology set forth in the Incentive Toll Settlement 1996 - 2000 (the 1996 Agreement) reached between TMPL, the Canadian Association of Petroleum Producers (CAPP) and Chevron Canada Limited (Chevron). The 1996 Agreement expired on 31 December 2000.

On 6 November 2000 TMPL, CAPP and Chevron reached a Memorandum of Understanding with respect to a second five-year Incentive Toll Settlement (ITS) for the period 1 January 2001 to 31 December 2005. The ITS document was subsequently finalized.

On 12 December 2000, TMPL applied for the approval of interim tolls effective 1 January 2001 which were calculated in accordance with the principles agreed to and embodied in the ITS.

On 19 December 2000, TMPL applied for the approval of the ITS. CAPP and Chevron, the parties to the ITS agreement, provided letters of support. TMPL served a copy of its application on the shippers and interested parties. Prior to filing of the application, TMPL had held workshops in Vancouver and Calgary for the interested parties where it presented the terms of the ITS and responded to questions.

On 27 December 2000, the Board issued Order TOI-3-2000 allowing TMPL to charge tolls as set forth in "Interim Tariff No. 47" for Petroleum and "Interim Tariff No. RP 16" for Refined and Partially Refined Petroleum and Methyl Tertiary Butyl Ether (MTBE), on an interim basis effective 1 January 2001.

On 25 January 2001, the Board decided to deal with the application for approval of the ITS by written submissions and, by way of a letter to TMPL, established a procedure for examining the application and receiving comments and reply comments. Interested parties could file written comments with the Board and serve a copy thereof on TMPL and other interested parties by 8 February 2001; and TMPL would file its reply comments with the Board and serve a copy thereof on the interested parties by 15 February 2001. No party filed comments on the application.

On 16 February 2001, TMPL applied for the approval of final 2001 tolls as set forth in "Final Tariff No. 47" for Petroleum and "Final Tariff No. RP 16" for Refined and Partially Refined Petroleum and MTBE. The proposed final 2001 tolls were the same as the interim tolls then in effect as of 1 January 2001 pursuant to Order TOI-3-2000.

On 23 March 2001, the Board considered both applications and decided to approve the ITS and the final tolls for 2001 and, by letter to TMPL, released its decision and associated toll order.

The Board's 23 March 2001 decision, Toll Order TO-1-2001 and the ITS agreement in its entirety are reproduced in this book which is intended to serve as a reference concerning the ITS and its implementation. As a result of formatting, page numbering in this document and the filed ITS is not consistent. Readers should refer to TMPL's applications and the original documents submitted therewith for further details in this matter.

Chapter 2

NEB Decision

Files 4200-T004-8
4200-T004-9

23 March 2001

Mr. Michael W.P. Boyle
Corporate Solicitor
Trans Mountain Pipe Line Company Ltd.
1333 West Broadway, Suite 900
Vancouver, B.C.
V6H 4C2
Facsimile (604) 739- 5001

Dear Mr. Boyle:

Trans Mountain Pipe Line Company Ltd. (TMPL)
Application Dated 19 December 2000 for Approval of
Incentive Toll Settlement (ITS) 2001 - 2005 and
Application Dated 16 February 2001 for Approval of Final Tolls for 2001

ITS 2001 - 2005

The National Energy Board (the Board) has considered TMPL's application dated 19 December 2000 for approval of the ITS 2001 - 2005 and the proposed tolls for 2001. The Board has also considered the letters of support from the Canadian Association of Petroleum Producers and Chevron Canada Limited, both parties to the ITS.

The Board has examined the application in the light of its *Guidelines for Negotiated Settlements of Traffic, Tolls and Tariffs* dated 23 August 1994. In particular, the Board indicated therein that upon filing of information related to the settlement, interested parties would be provided with an opportunity to comment on the settlement. Should the settlement not be opposed by any parties, the Board would be able to conclude that the resultant tolls are just and reasonable without a public hearing.

The Board has noted that TMPL served a copy of its application on the shippers and interested parties. As well, prior to filing the application, TMPL had held workshops in Vancouver and Calgary where the interested parties had the opportunity to obtain clarification of the terms of the ITS. Subsequently, on 25 January 2001, the Board established a procedure for examining the application and specified that interested parties could file written comments with the Board and serve a copy thereof on TMPL and other interested parties by 8 February 2001and TMPL would file its reply comments with the Board and serve a copy thereof on the interested parties by 15 February 2001.

The Board is satisfied that all parties with an interest in TMPL's tolls have had the opportunity to comment on TMPL's application for approval of the ITS and the proposed tolls. The Board notes that no

party has expressed any opposition to any aspect of the agreement. Accordingly, the Board has concluded that TMPL's tolls calculated in accordance with the ITS for 2001 through 2005 would be just and reasonable.

In view of the foregoing the Board has decided to approve the ITS 2001-2005.

Final 2001 Tolls

The Board has also considered TMPL's application dated 16 February 2001 for approval of the proposed final 2001 tolls, effective 1 January 2001 as set forth in "Final Tariff No. 47" for Petroleum and "Final Tariff No. RP 16" for Refined and Partially Refined Petroleum and MTBE.

The Board notes that the proposed final 2001 tolls are the same as the interim tolls that are currently in effect as of 1 January 2001 pursuant to Order TOI-3-2000. As the interim tolls were calculated reflecting the forecast 2000 results, the continuation of the same tolls through 2001 would result in a revenue shortfall of $126,000.

The Board also considered TMPL's request that any surplus or shortfall of revenue in 2001 resulting from the difference between the tolls herein approved as final tolls for 2001 and the tolls that would be otherwise calculated reflecting the actual 2000 results be carried forward together with carrying charges as defined in the ITS, and be used as an adjustment to tolls in 2002.

The Board has decided to approve the proposed final tolls for 2001. The Board has also decided to approve the proposed treatment accorded to any surplus or shortfall of revenue in 2001 resulting from the difference between the tolls herein approved as final tolls for 2001 and the tolls that would be otherwise calculated reflecting the actual 2000 results.

Decision

Specifically, the Board has decided as follows:

1. The ITS and the methodology, as set forth therein, for calculating tolls for years 2001 through 2005 are approved;

2. The proposed final 2001 tolls as set forth in "Final Tariff No. 47" for Petroleum" and "Final Tariff No. RP 16" for Refined and Partially Refined Petroleum and MTBE, effective 1 January 2001 are approved;

3. Any surplus or shortfall of revenue in 2001 resulting from the difference between the tolls herein approved as final tolls for 2001 and the tolls that would be otherwise calculated reflecting the actual 2000 results, shall be carried forward together with carrying charges as defined in the ITS, and shall be used as an adjustment to tolls in 2002;

4. The establishment of the following seven deferral accounts, in order to implement the ITS as described in the ITS is approved:

(i) Revenue shortfall or surplus
(ii) Net revenue Deficit/Excess variance
(iii) Inflation adjustment
(iv) Property Tax Adjustment
(v) Oil loss Allowance variance
(vi) Incremental Power cost Adjustment
(vii) Non-Routine Adjustments;

5. The final tolls filed for each of the years 2002 to 2005 shall be deemed to be interim tolls effective 1 January of the following year pending the filing of final tolls on or before 1 March of that year;

6. The revised depreciation rates, reflecting an economic life of the TMPL system truncating in 2025, effective 1 January 2001 are approved; and

7. TMPL is relieved from all reporting and filing requirements pursuant to Order TO-3-92 and the Memorandum of Guidance dated 16 February 1994, related to quarterly surveillance reports pending the outcome of the Board's examination of appropriate filing requirements for pipeline operating under an incentive toll settlement.

Toll Design

8. The applied-for modification of the toll design necessary to introduce three new tolls is approved as follows:

(i) Receipt Tankage and Terminalling Toll at the Edmonton Terminal

The Board approves the introduction of the Receipt Tankage and Terminalling Toll at the Edmonton Terminal which will apply to material received into TMPL's Edmonton Terminal and subsequently delivered out to connected facilities at Edmonton without entering the TMPL mainline.

(ii) Westridge Dock Incentive Toll (WDIT)

The Board approves the introduction of the Westridge Dock Incentive Toll which entails a reduction ($3.50/m^3 in 2001) from the toll that would otherwise apply, for up to a specified annual volume of petroleum nominated for loading over the Westridge Dock, subject to meeting the density and volume constraints (i.e., not exceeding 904 kg per m^3 and for a minimum loading of 40,000 m^3).

(iii) Alkylate Incentive Toll

The Board approves the introduction, in 2002, of an incentive toll for the Alkylate volumes to attract alkylate volumes and maintain TMPL's throughput subsequent to the loss of the MTBE volumes.

The attached Order TO-1-2001 gives effect to the above decisions.

TMPL is directed to serve a copy of this letter and the attached Order on the interested parties, as they are listed in TMPL's letter dated 19 December 2000.

Yours truly,

(Signed by)

Michel L. Mantha
Secretary

Attachment

Chapter 3

ORDER TO-1-2001

ORDER TO-1-2001

IN THE MATTER OF the *National Energy Board Act* (the Act) and the regulations made thereunder; and

IN THE MATTER OF an application by Trans Mountain Pipe Line Company Ltd. (TMPL) dated 19 December 2000 for approval of an incentive toll settlement (ITS) for the years 2001 to 2005 and associated toll order pursuant to Part IV of the Act, filed with the National Energy Board (Board) under File 4200-T004-8;

and

IN THE MATTER OF an application by TMPL dated 16 February 2001, for approval of final 2001 tolls and associated toll order, pursuant to Part IV of the Act, filed with the Board under File No. 4200-T004-9.

BEFORE the Board on 22 March 2001.

WHEREAS pursuant to Order TOI-3-2000, TMPL has been charging tolls on an interim basis as of 1 January 2001 until final 2001 tolls are approved by a further order of the Board;

AND WHEREAS on 19 December 2000, TMPL filed an application for an order pursuant to Part IV of the Act approving an Incentive Toll Settlement (ITS) including the methodology set forth therein for calculating TMPL's tolls for the years 2001 though 2005;

AND WHEREAS the ITS has been negotiated between TMPL and its shippers as represented by Canadian Association of Petroleum Producers (CAPP) and Chevron Canada Limited;

AND WHEREAS on 16 February 2001 TMPL filed an application for an order, pursuant to Part IV of the Act, authorizing it to charge tolls, as set out in in "Final Tariff No. 47" for Petroleum and "Final Tariff No. RP 16" for Refined and Partially Refined Petroleum and MTBE" included in the application, on a final basis effective 1 January 2001;

AND WHEREAS TMPL has requested that final tolls filed for each of the years 2002 to 2005 be deemed to be in effect on an interim basis effective 1 January of the following year pending the filing of final tolls on or before 1 March of that year;

AND WHEREAS the Board has considered TMPL's ITS 2001 -2005 by reference to the Board's *Guidelines for Negotiated Settlements of Traffic, Tolls and Tariffs* dated 23 August 1994;

AND WHEREAS the Board is satisfied that no party with an interest in TMPL's tolls and having the opportunity to comment on TMPL's application for approval of the ITS and the proposed tolls, has expressed any opposition to any aspect of the ITS agreement;

AND WHEREAS the Board is satisfied that TMPL's tolls for the years 2001 to 2005, calculated in accordance with the ITS agreement between TMPL and its shippers, will be just and reasonable;

IT IS ORDERED THAT:

1. TMPL shall calculate tolls for each of the years 2002 to 2005 in accordance with the methodology set forth in the ITS.

2. TMPL shall implement final 2001 tolls as set forth in "Final Tariff No. 47" for Petroleum and "Final Tariff No. RP 16" for Refined and Partially Refined Petroleum and MTBE, effective 1 January 2001.

3. Order TOI-3-2000, which authorized tolls that TMPL may charge on an interim basis effective 1 January 2001, is revoked and the tolls authorized thereunder are hereby disallowed;

4. TMPL shall carry forward any surplus or shortfall of revenue in 2001 resulting from the difference between the tolls herein approved as final tolls for 2001 and the tolls that would be otherwise calculated reflecting the actual 2000 results together with carrying charges as defined in the ITS, and shall use it as an adjustment to tolls in 2002.

5. Final tolls approved for each of the years 2002 to 2005 shall be deemed to be interim tolls effective 1 January of the following year pending the filing of final tolls on or before 1 March of that year.

6. TMPL is relieved from all reporting and filing requirements pursuant to Order TO-3-92 and the *Memorandum of Guidance* dated 16 February 1994, related to quarterly surveillance reports pending the outcome of the Board's examination of appropriate filing requirements for pipeline operating under an incentive toll settlement.

7. TMPL shall implement three new tolls:

    (i) Receipt Tankage and Terminalling Toll at the Edmonton Terminal

    This toll shall apply to material received into TMPL's Edmonton Terminal and subsequently delivered out to connected facilities at Edmonton without entering the TMPL mainline.

(ii) Westridge Dock Incentive Toll

This toll shall apply to a specified annual volume of petroleum nominated for loading over the Westridge Dock, subject to meeting the density and volume constraints.

(iii) Alkylate Incentive toll

This toll shall be introduced in 2002 and shall apply to alkylate volumes.

NATIONAL ENERGY BOARD

(Signed by)

Michel L. Mantha
Secretary

Chapter 4

ORDER TOI- 3 -2000

ORDER TOI- 3 -2000

IN THE MATTER OF the *National Energy Board Act* (the Act) and the regulations made thereunder; and

IN THE MATTER OF an application by Trans Mountain Pipe Line Company Ltd. (TMPL or Trans Mountain) dated 12 December 2000 for approval of interim tolls that the Company may charge as of 1 January 2001 pursuant to subsection 19(2) and Part IV of the Act, filed with the Board under File 4400-T004-18.

BEFORE the Board on 27 December 2000.

WHEREAS TMPL has filed an application on 12 December 2000 for approval under subsection 19(2) and Part IV of the Act for tolls that the Company may charge on an interim basis commencing 1 January 2001;

WHEREAS TMPL sets forth the proposed interim tolls for 2001 in Interim Tariff No. 47 which applies to petroleum and Interim Tariff No. RP16 which applies to refined and partially refined petroleum and MTBE;

WHEREAS negotiations between TMPL, the Canadian Association of Petroleum Producers and Chevron Canada Limited have resulted in a Memorandum of Understanding regarding an Incentive Toll Settlement in respect of tolls for the period 1 January 2001 to 31 December 2005;

WHEREAS TMPL filed an application dated 19 December 2000 with the Board seeking approval of the Incentive Toll Settlement;

AND WHEREAS the Board is satisfied that, pending further consideration of the tolls proposed by TMPL for 2001, the issuance of an interim order is in the public interest;

IT IS ORDERED THAT:

1. Trans Mountain may charge, on an interim basis, effective 1 January 2001, the tolls set forth in Interim Tariff No. 47 and Interim Tariff No. RP 16.

2. The interim tolls allowed by this Order shall remain in effect until they are replaced by final tolls approved in a further order of the Board.

NATIONAL ENERGY BOARD
(Signed by)

Michel L. Mantha
Secretary

Appendix I

INCENTIVE TOLL SETTLEMENT

2001 - 2005

Between

TRANS MOUNTAIN PIPE LINE COMPANY LTD.
("TMPL")

and

CANADIAN ASSOCIATION OF PETROLEUM PRODUCERS
("CAPP")

and

CHEVRON CANADA LIMITED
("Chevron")

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INCENTIVE TOLL SETTLEMENT
2001 - 2005
Between
TRANS MOUNTAIN PIPE LINE COMPANY LTD.
("TMPL")
and
CANADIAN ASSOCIATION OF PETROLEUM PRODUCERS
("CAPP")
and
CHEVRON CANADA LIMITED
("Chevron")

1. INTRODUCTION

1.0 TMPL is a body corporate incorporated under the laws of Canada, having its registered office in the City of Vancouver, in the Province of British Columbia. TMPL owns and operates an oil pipeline regulated by the National Energy Board ("NEB" or the "Board") pursuant to the provisions of the *National Energy Board Act* ("Act").

1.1 CAPP is an association having its principal office in the City of Calgary, in the Province of Alberta. CAPP represents the interest of upstream crude oil and natural gas producing companies, the member companies of which account for approximately 95% of Canadian crude oil and natural gas production.

1.2 Chevron is not a member of CAPP. Chevron is a principal shipper of crude oil on the TMPL System.

1.3 TMPL, CAPP and Chevron negotiated an Incentive Toll Settlement (the "1996 Agreement") which provided a global settlement of revenue requirement and toll issues for TMPL for the five year period commencing January 1, 1996 and expiring December 31, 2000. The 1996 Agreement was approved by the Board by Board Order TO-2-96 and will remain in effect until its expiry on December 31, 2000.

1.4 TMPL, CAPP and Chevron have negotiated this Incentive Toll Settlement ("ITS"). Subject to the approval of the NEB, the ITS will take effect as of January 1, 2001 and will remain in effect for the five year period ending December 31, 2005.

1.5 The ITS will better align the interests of TMPL and its shippers by providing a framework which encourages the mitigation of increases in Tolls, and provides TMPL an opportunity to increase the profitability of the TMPL System. Under the ITS, TMPL will assume the risk of throughput variance by absorbing revenue shortfalls and retaining revenue surpluses, within a defined range of annual average throughput volume. TMPL will have greater responsibility to manage the costs of pipeline operations and will retain the benefit of any realized efficiencies.

1.6 Incentive Tolls are intended to provide an incentive for volumes that would not otherwise be transported on the TMPL System. TMPL will have the ability to apply, from time to time, for an appropriate level of Incentive Toll for movements over the Westridge Dock.

1.7 TMPL, CAPP and Chevron have reached the ITS on a negotiated basis, and agree that no component of the ITS is to be construed as representing the position of any Party on the appropriate result which would obtain in the absence of a negotiated settlement. The Parties intend that the settlement be viewed as a whole, and that there should be no prejudice to the positions of any Party in the future. No element of the settlement should be considered as acceptable to any Party in isolation from all other aspects of the settlement. In addition, the use of certain bond rating criteria for the purposes of this settlement does not necessarily represent the view of the Parties as to the appropriate debt rating for TMPL. The parties intend that the settlement will be applicable solely to TMPL and will have no application to or form a precedent for other NEB-regulated pipelines.

2. DEFINITIONS

2.1 In this ITS the following terms have the meaning set out below:

(a) **"Affiliate"** means:

(i) an affiliated corporation as defined in the *Canada Business Corporations Act* (R.S.C. 1985 c.C-44, as amended), or

(ii) a business enterprise or activity owned by TMPL but not forming part of the TMPL System.

(b) **"Alkylate Incentive Toll"** means the reduced Toll established pursuant to the provisions of Article 13.

(c) **"Annual Agreement Compliance Audit"** means an audit in the nature of the audit described in the Canadian Institute of Chartered Accountants ("CICA") Handbook, Section 5815, as may be amended from time to time.

(d) **"Base Tolls"** means the Tolls determined in accordance with Article 4, or as recalculated in accordance with the provisions of Article 5.

(e) **"Base Throughput Level"** means an annual average throughput at 30,000 m^3/d, or as otherwise determined in accordance with Article 5.

(f) **"Bulk Oil Cargo Fee"** means a fee payable to a certified response organization, established pursuant to regulations made under the *Canada Shipping Act*, applicable to volumes of oil loaded as cargo onto marine vessels at TMPL's Westridge Terminal.

(g) **"Capital Structure Ratio"** means the capital structure of the TMPL System having a deemed equity component of 45% of capitalization as prescribed for the TMPL System by the NEB as a result of the RH-2-94 proceeding, Order TG/TO-1-95.

(h) **"Carrying Charges"** means carrying costs calculated on balances as of December 31 at the annual average of the Bank Rates published in the "Bank of Canada Review with Banking and Financial Statistics" ("BOC Review") plus 50 basis points, and shall be applicable to all adjustments or amounts carried forward or payable hereunder.

(i) **"Dedicated Facilities"** means any portion of the TMPL System that is, by order of the NEB or contractual arrangement between TMPL and any shipper or group of shippers, used exclusively to provide service to a shipper or group of shippers.

(j) **"Deferred Income Tax Balance"** means the accumulated deferred income taxes, being timing differences formerly arising from the calculation for normalized income taxes, attributable to the TMPL System and having a balance of $23,617,000 as of the expiry of the 1996 Agreement.

(k) **"Depreciation Expense"** means the annual allowance for depreciation of TMPL's plant in service in accordance with depreciation rates approved by the NEB from time to time. Subject to NEB approval, new depreciation rates for plant accounts, based on remaining economic life until year 2025, are applied in the calculation of Base Tolls.

(l) **"Extraordinary Event"** means an event described in Article 16.1.

(m) **"Property Tax Adjustment"** has the meaning ascribed to it in Article 8.1.

(n) **"Heavy Oil"** means oil which has a density greater than 904kg/m³ at 15°C. Oil will not be considered to be Heavy Oil when it forms part of a blend having a density not greater than 904kg/m³ at 15°C.

(o) **"Inflation Adjustment"** means, for all years except 2001, the amount obtained by subtracting 3.5% from the actual annual percentage rate of change of the Consumer Price Index for Canada, all items (publication number 62-001 reported by Statistics Canada in January) for the previous year.

(p) **"Interest Expense"** has the meaning ascribed to it in Article 15.4(b).

(q) **"Major Facilities Expansion"** means a capital expenditure of not less than $5 million required for construction of any project (which may include facilities at more than one geographic location) that is requested or agreed to by the shippers or ordered by the NEB.

(r) **"Net Excess Revenue"** means the revenue attributable to throughput in excess of the upper limit of the Throughput Risk Band, as determined in accordance with Article 6.

(s) **"Net Revenue Deficit"** means the foregone revenue attributable to throughput less than the lower limit of the Throughput Risk Band, as determined in accordance with Article 6.

(t) **"Non-Routine Adjustment"** means an adjustment to Tolls determined in accordance with the provisions of Article 15.

(u) **"Non-Routine Event"** means an event described in Article 15.1.

(v) **"Party"** means TMPL, CAPP or Chevron and "Parties" means every Party.

(w) **"Throughput Risk Band"** has the meaning ascribed to it by Article 6.

(x) **"TMPL System"** means the NEB regulated portion of the pipeline system owned by TMPL, or an Affiliate, and operated by TMPL.

(y) **"Toll or Tolls"** means the amount per unit established by TMPL from time to time, in accordance with the terms of this ITS, to transport a hydrocarbon stream from a specified point of receipt to a specified point of delivery through the TMPL System and published in a tariff filed with the NEB.

(z) **"Westridge Dock Incentive Toll"** means the reduced Toll established pursuant to the provisions of Article 12.

2.2 Wherever the singular or plural is used in this ITS, it shall be construed as meaning the plural or singular as the context requires.

2.3 Any reference to "current" practices or levels of service in this ITS shall be construed as meaning the practices or levels of service prevailing as of January 1, 2001.

2.4 Schedules "A" through " M" and Appendix 1 attached hereto shall form part of this ITS, provided that the numerical values contained in Schedule A, E and Schedules G through M are illustrative only.

3. TERM

3.1 The term of this Incentive Toll Settlement shall be from January 1, 2001 to December 31, 2005, inclusive of the commencement and termination dates.

4. CALCULATION OF BASE TOLLS

4.1 The Base Tolls to be effective as of January 1, 2001 shall be calculated in the following manner:

(a) the revenue requirement shall be determined in accordance with the 1996 Agreement, including provision for income taxes calculated under the flow-through methodology, having regard to the transition rules provided in the 1996

Agreement, but subject to the adjustments provided in sub-paragraphs (b), (c), (d) and (e) of this Article 4.1;

(b) any positive balance of the Transportation Revenue Variance, as defined in the 1996 Agreement, arising from TMPL's actual results for 2000 shall be offset by a partial draw down of the Deferred Income Tax Balance;

(c) the revenue to be recovered by TMPL shall be increased by $ 1.76 million to offset the incremental net power costs associated with the additional long haul movements resulting from the closure of the Pembina Plateau pipeline system. The revenue recovered to offset the incremental net power costs will be adjusted annually in accordance with Article 11;

(d) the revenue requirement will include a provision for an oil loss allowance calculated in accordance with Article 10.1. The revenue recovered as a provision for oil losses will be adjusted annually in accordance with Article 10;

(e) the revenue requirement calculated pursuant to sub-paragraph (a) hereof will be adjusted for calendar year 2001 to give effect to certain adjustments, identified as "2000 Adjustments" in Schedule C, which will not continue past December 31, 2001;

(f) the resulting revenue requirement shall be recovered over the Base Throughput Level; and

(g) the toll design methodology in effect during 2000 shall be applied to the calculation of the Base Tolls.

4.2 Computation of the revenue requirement for the Base Tolls, the adjustment specific to 2001, and the 2001 revenue requirement will be as shown in Schedule C.

4.3 Unless recalculated in accordance with the provisions of the Article 5, the Base Tolls shall remain in effect until December 31, 2005.

4.4 TMPL will determine, and file for approval of the NEB, specific Tolls to have effect during each calendar year. The Tolls will be determined as the Base Tolls then in effect plus or minus the effect of any Toll adjustments, together with Carrying Charges, as provided by the terms of this ITS. Unless otherwise specifically agreed between TMPL and CAPP, TMPL will seek the approval of the NEB for annual tolls to be effective as of March 1 of each calendar year.

4.5 Any toll adjustments made pursuant to this ITS shall be calculated using the Base Throughput Level determined in accordance with the provisions of Article 5.

5. BASE THROUGHPUT LEVEL

5.1 Subject to the adjustments provided in Articles 5.2 through 5.5, Tolls, and any adjustments to the Tolls contemplated in this Agreement, will be calculated using a Base Throughput Level providing for annual deliveries averaging 30,000 m^3/day. The composition of long and short haul volumes used to determine cubic metre kilometres in the Base Throughput Level for purposes of calculating Tolls, or an adjustment thereto, will be as set out in Schedule D.

5.2 TMPL and the shippers anticipate that all movements of MTBE will be discontinued by July 2002. If the volumes of MTBE currently moving through the TMPL System are not replaced by an alkylate stream eligible for the Alkylate Incentive Toll no later than two months after the discontinuance of MTBE movements, the Base Throughput Level will be adjusted to provide for annual deliveries averaging 28,660m^3/day and the Base Tolls will be recalculated accordingly. The reduction of the Base Throughput Level will be prorated during the year in which MTBE volumes are lost in order to maintain revenue neutrality to TMPL. If MTBE shipments through the TMPL System increase as a result of all or part of the plant output currently shipped by rail being transported by pipeline, then any reduction in the Base Throughput Level will be offset by any such increase during the year, or years, it occurs.

5.3 If the volumes of MTBE currently moving through the TMPL System are replaced by volumes of an alkylate material eligible for the Alkylate Incentive Toll there will be no change to the Base Throughput Level notwithstanding the fact that the actual volumes of alkylate material may exceed the volumes of MTBE currently moving through the TMPL System. For purposes of determining TMPL's actual throughput relative to the Base Throughput Level and for determining the Throughput Risk Band provided in Article 6, the volumes of alkylate material transported under the reduced Toll provided as the Alkylate Incentive Toll will be multiplied by a conversion factor of 0.744 as determined in accordance with Schedule K.

5.4 If the actual annual throughput in any calendar year is less than the lower limit of the Throughput Risk Band determined in accordance with Article 6.1, the recovery of the Net Revenue Deficit plus Carrying Charges as provided by Article 6.8 will be calculated on the Base Throughput Level.

5.5 If the actual annual throughput in any calendar year is greater than the upper limit of the Throughput Risk Band determined in accordance with Article 6.1, the credit for the refundable portion of the Net Excess Revenue, plus Carrying Charges, as provided by Article 6.5 will be calculated on the Base Throughput Level.

6. THROUGHPUT RISK BAND

6.1 TMPL will accept the risk and benefit of variations in actual annual revenue resulting from variations in annual average throughput that do not exceed the limits of the Throughput Risk Band. The limits of the Throughput Risk Band will be annual average deliveries of 2,000 m^3/day greater than the Base Throughput Level or 1,500 m^3/day less than the Base

Throughput Level. There will be no Toll adjustments to reflect revenue variances attributable to throughput fluctuations within the Throughput Risk Band.

6.2 If actual throughput for any calendar year exceeds the upper limit of the Throughput Risk Band, TMPL will determine the Net Excess Revenue attributable to throughput in excess of the Throughput Risk Band. The Net Excess Revenue will be the 85% of full Toll revenue attributable to such throughput.

6.3 The method of calculating the Net Excess Revenue is as set forth in Schedule E.

6.4 TMPL shall retain 50% of the Net Excess Revenue for its own account.

6.5 The remainder of the Net Excess Revenue, together with Carrying Charges, shall be returned to shippers by way of a credit to the subsequent year(s) Tolls.

6.6 If actual throughput for any calendar year is less than the lower limit of the Throughput Risk Band, TMPL will determine the Net Revenue Deficit attributable to throughput less than the Throughput Risk Band. The Net Revenue Deficit will be 95% of the full Toll revenue attributable to such throughput.

6.7 The method of calculating the Net Revenue Deficit is as set forth in Schedule E.

6.8 The Net Revenue Deficit, together with Carrying Charges, shall be recovered from shippers by way of a surcharge to subsequent year(s) Tolls.

7. INFLATION ADJUSTMENT

7.1 If the Inflation Adjustment for any year is negative or zero, it will not result in an adjustment to Tolls.

7.2 If the Inflation Adjustment for any year is positive, the Tolls for the subsequent year will be adjusted upwards by 75% of the Inflation Adjustment, plus provision for Carrying Charges.

7.3 The method of calculating the Inflation Adjustment is as set forth in Schedule H.

8. PROPERTY TAX ADJUSTMENT

8.1 The Property Tax Adjustment is the amount, if any, by which the aggregate in any calendar year of direct taxes calculated upon or levied against land, equipment or machinery owned, leased or otherwise held by TMPL, or an Affiliate (currently Trans Mountain Housing Limited and Alpac Construction & Surveys Limited), for purposes of the TMPL System, varies by more than 5% from the corresponding aggregate from the previous calendar year.

8.2 If, in any calendar year, the Property Tax Adjustment and the Inflation Adjustment are both positive then the Inflation Adjustment will be offset against the Property Tax Adjustment to avoid double recovery by TMPL.

8.3 Any positive value of the Property Tax Adjustment, net of the adjustment provided in Article 8.2, will be recovered by TMPL by a surcharge to the following year's Tolls.

8.4 Any negative value of the Property Tax Adjustment will be refunded to shippers by means of a credit to the subsequent year's Tolls.

8.5 The calculation of any surcharge or credit pursuant to this Article will include provision for Carrying Charges.

8.6 The method of calculating the Property Tax Adjustment, including any offset for the Inflation Adjustment, is as set forth in Schedule I.

9. DRAW DOWN OF DEFERRED INCOME TAX BALANCE

9.1 CAPP may, at any time during the term of the ITS, request that TMPL utilize all or a portion of the Deferred Income Tax Balance remaining after the draw down provided in Article 4.1(b) in order to maintain general stability of the Base Tolls.

9.2 Upon receiving a request pursuant to Article 9.1, TMPL will determine and review with CAPP the financial consequences of drawing down all or part of the Deferred Income Tax Balance. Any determination of the financial consequences must include the provision that for the year of the draw down, and subsequent years, TMPL will be indifferent as to whether all or a portion of the Deferred Income Tax Balance is utilized or not.

9.3 TMPL and CAPP will agree on the financial consequences, and the effect on Base Tolls, prior to implementing any draw down of the Deferred Income Tax Balance.

10. OIL LOSS ALLOWANCE

10.1 The Base Tolls include an oil loss allowance provided as 0.05% of the Base Throughput level. For Tolls effective January 1, 2001, the oil loss allowance is calculated using a forecast oil price of $300/m³.

10.2 For Tolls effective January 1, 2002, and for each subsequent year during the term of the ITS, the Tolls will be adjusted to reflect:

(a) TMPL's best estimate of crude oil prices used to calculated the oil loss allowance for that year; and

(b) an adjustment, by means of credit or surcharge to the Tolls, to reflect the difference between the previous years forecast oil cost and the actual cost of oil purchased by TMPL, plus Carrying Charges.

10.3 The method of calculating the oil loss allowance is as set forth in Schedule J.

11. INCREMENTAL POWER COST ADJUSTMENTS

11.1 For 2002, and each subsequent year during the term of the ITS, the amount included in the calculation of Base Tolls to reflect the net power costs of additional long haul movements as provided in Article 4.1(c) shall be adjusted to reflect:

(a) TMPL's best forecast of the additional power costs for that year; plus

(b) an adjustment, by means of credit or surcharge to the Tolls, to reflect the differences between TMPL's forecast of additional power cost for the previous year and the actual additional power cost for that year, plus a provision for Carrying Charges.

11.2 The actual cost of power attributable to the movement of additional long haul volumes in any year shall be calculated as:

(a) the amount by which TMPL's average cost per megaWatt hour in any year (which may be a hedged or prepurchased power rate during the years 2001 and/or 2002) exceeds TMPL's actual cost per megaWatt hour in calendar year 2000;

multiplied by

(b) the power requirement, deemed to be 1,800 megaWatt hours per month, required to transport an annual average throughput of 5,285m³ per day of light crude oil from Edmonton to Kamloops.

11.3 If the actual throughput in any calendar year is less than the Base Throughput Level applicable in that year, the average monthly power consumption established by Article 11.2(b) will be reduced so as to maintain the same ratio to 1,800 megaWatt hours per month as the average annual throughput of 5,285m³ per day bears to the total light crude oil receipts at Edmonton provided in the Base Throughput Level.

11.4 The method of calculating the power cost adjustments is as set forth in Schedules F and G.

12. WESTRIDGE DOCK INCENTIVE TOLL

12.1 TMPL may from time to time during the term of the ITS apply to the NEB for approval of a toll specifically applicable to volumes of petroleum nominated for loading over the Westridge Dock. The level of toll reduction provided by the Westridge Dock Incentive Toll may vary from time to time but will not be greater than $6/m³ from the Base Toll that would otherwise apply.

12.2 Petroleum, other than petroleum that is Heavy Oil at the point of receipt into the TMPL System, nominated for loading over the Westridge Dock will be subject to a minimum loading vessel volume of 40,000 m³ in order to be eligible for the toll reduction afforded by the Westridge Dock Incentive Toll.

12.3 The Westridge Dock Incentive Toll will be discontinued for the remainder of any calendar year after a total of 730,000 m³ have been transported pursuant to the Westridge Dock Incentive Toll in that year.

12.4 If two or more shippers nominate volumes eligible for the Westridge Dock Incentive Toll in a single month and the total of those nominated volumes, as per prevailing nomination procedures, will be sufficient to cause the annual total volume moved pursuant to the Westridge Dock Incentive Toll to exceed 730,000 m³, then the available volumes eligible for that incentive toll will be apportioned between the nominating shippers in accordance

with the principles for allocation of pipeline capacity provided in TMPL's petroleum tariff then in effect.

13. ALKYLATE INCENTIVE TOLL

13.1 Alkylate material is anticipated to replace volumes of MTBE currently transported on the TMPL System following the discontinuance of MTBE production. Alkylate material replacing MTBE will be afforded a toll reduction as the Alkylate Incentive Toll.

13.2 The Alkylate Incentive Toll will apply only if the actual annual average throughput of alkylate material for transportation on the TMPL System is not less than 1,340 m^3/d.

13.3 In order to maintain revenue neutrality to TMPL, the Alkylate Incentive Toll will be the same ratio to the Toll that would otherwise apply to the transport of MTBE from Edmonton to Burnaby as the ratio of MTBE volumes included in the Base Throughput Level is to the planned volume of alkylate deliveries. The method of calculating the Alkylate Incentive Toll is set forth in Schedule L.

13.4 If, during any calendar year, material is provided a reduced Toll pursuant to the Alkylate Incentive Toll and it is subsequently determined that the Alkylate Incentive Toll does not apply to that material, then TMPL will invoice the shipper for the amount of the Toll reduction applicable to such volumes, plus Carrying Charges.

14. NEW MATERIALS INCENTIVE TOLL

14.1 Any current or prospective shipper may request the establishment of a new materials incentive toll for a specifically identifiable hydrocarbon stream, or other material, not previously transported by TMPL.

14.2 Upon receiving a request for the establishment for a new materials incentive toll, TMPL will seek the concurrence of CAPP prior to filing any application with the NEB seeking approval of such an incentive toll. TMPL and CAPP will determine whether any applicable New Material Incentive Toll can be accommodated within the terms of the ITS or whether an amendment to the ITS will be required.

15. NON-ROUTINE ADJUSTMENTS

15.1 A Non-Routine Event may arise which necessitates adjustment to the Tolls. A Non-Routine Event shall be:

(a) costs resulting from the unsuccessful resolution or agreed settlement of litigation between TMPL and the government of British Columbia concerning the applicability to TMPL of certain government levies relating to the British Columbia Energy Council;

(b) costs arising from changes in programs or the installation of facilities ordered by the NEB where the matter was not initiated by TMPL or changes in costs resulting from legislation, regulations, orders or directions by any government authority which result in additional safety or environmental requirements, practices or procedures for TMPL;

(c) increases in costs from programs requested by shippers, or agreed to by shippers, provided that any shipper may require determination of whether such costs should be recovered through tolls on a "rolled in" basis or on a "stand alone" basis. If stand alone, costs will be billed directly to the shipper in question;

(d) increases in costs as a result of uninsured losses, subject to the requirements of Article 21.3;

(e) the costs of programs necessary to address new or unanticipated failure mechanisms which may significantly impact upon the integrity of the pipeline;

(f) the costs of replacement of the Port Mann crossing of the Fraser River ;

(g) the amount of additional income tax payable as a result of repayment of previously accrued timing differences if, in any calendar year, the calculation of income taxes reaches the crossover point where Depreciation Expense exceeds allowable capital cost allowance. TMPL will provide CAPP and Chevron with a completed Schedule B on an annual basis; or

(h) the cost of audits requested by CAPP pursuant to Article 20.

15.2 A Non-Routine Adjustment shall be the adjustment to Tolls necessary to permit TMPL to recover or credit any revenue adjustment resulting from the occurrence of a Non-Routine Event where such revenue adjustment is recovered over the Base Throughput Level. The following conditions shall apply, as applicable, to the determination of a Non-Routine Adjustment:

(a) No Non-Routine Adjustment arising as a result of the circumstances described in Articles 15.1(d), 15.1(e) or 15.1(f) shall be made unless the additional revenue to be recovered exceeds $150,000 for an individual adjustment or $300,000 in aggregate in any calendar year;

(b) A Non-Routine Adjustment arising as a result of the Non-Routine Event described in Article 15.1(a) shall be calculated by amortizing the resulting costs over the remaining term of this Agreement; and

(c) The amount recovered as a Non-Routine Adjustment will be the total of additional operating costs incurred as a result of the Non-Routine Event and additional capital related costs associated with the Non-Routine Event, as determined in accordance with Article 15.4.

15.3 If the actual capital costs incurred by TMPL as a result of a Non-Routine Event exceed, or are anticipated to exceed, $5 million, the Non-Routine Event will be deemed to be a Major Facilities Expansion and the provisions of Article 16 will apply.

15.4 The capital related costs associated with a Non-Routine Event shall be calculated as a cost of service revenue requirement based on the actual capital costs incurred by TMPL as a result of the Non-Routine Event, assuming a capital structure composed of 55% debt and 45% equity; and incorporating the following factors:

(a) Depreciation Expense;

(b) Interest Expense, calculated as the debt component of deemed capital structure times TMPL's incurred rate of interest expense for the year at the weighted average of TMPL's long term and short term debt costs;

(c) A provision for return calculated as the common equity rate of return allowed by the NEB pursuant to Order TG/TO-1-95, or subsequent Order amending or replacing it, as applied to the equity component of deemed capital structure;

(d) An allowance for funds used during construction, calculated as the overall weighted average cost of capital; and

(e) A provision for annual income taxes payable, calculated under the flow-through method, on the return component.

Annual revenue requirements calculated over the remaining term of the ITS will be levelized to flat annual revenue requirements having the same present value when discounted at a rate equal to TMPL's weighted average cost of debt. The resulting amount shall be used as the basis of calculating the Non-Routine Adjustment and will remain in effect throughout the remaining term of the ITS.

15.5 TMPL will not initiate a review of the mechanism used by the NEB to determine its allowed rate of return on equity nor will it initiate a review of its deemed capital structure.

15.6 The method of calculating Non-Routine Adjustments is as set forth in Schedule M.

16. REQUIRED RENEGOTIATION DURING TERM

16.1 Neither CAPP, Chevron nor TMPL will initiate a review of the tolls during the term of this Agreement unless an Extraordinary Event occurs or there is a proposed Major Facilities Expansion. An Extraordinary Event is:

(a) an annual rate of change in the Consumer Price Index for Canada of greater than 10%;

(b) a downgrading of TMPL's debt rating to below BBB (excluding any impact associated with decisions or actions of TMPL's parent company or an Affiliate); or

(c) an uninsured expenditure, or liability of more than $5 million, which would be required to:

(i) repair damage or restore operating ability as a result of an occurrence which effected operation; or

(ii) cover expenses arising by any of the matters described in Article 15.1(e) or 15.1(f).

16.2 If the Pembina Plateau pipeline system is returned to service resulting in receipts of crude oil into the TMPL System at Kamloops, the Parties will agree upon any revisions that may be required to the Base Throughput Level, the composition of short haul and long haul volumes making up the Base Throughput Level as indicated in Schedule D, and the deemed power consumption provided in Article 11.2, and the Base Tolls will be recalculated as required.

16.3 If there is an Extraordinary Event or a proposed Major Facilities Expansion, TMPL will meet with CAPP and Chevron to attempt to develop a mutually acceptable solution. If the Extraordinary Event involves a downgrading of TMPL's debt rating, TMPL will:

(a) obtain documentation from the rating agency to verify the potential or actual downgrade and what minimum corrective measures will be required to maintain or restore the rating; and

(b) ensure that such documentation shall clearly indicate whether non-NEB regulated activities undertaken by TMPL have materially adversely affected the ratings relative to the ratings in existence as of January 1, 2001.

If agreement is not reached within 45 days, any Party may commence proceedings to have the NEB resolve the issues.

17. SERVICE STANDARDS

17.1 TMPL will continue to provide service in accordance with current levels, which meet or exceed the standards existing in its current tariff rules and regulations, in accordance with the document entitled "Trans Mountain Service Levels" and attached as Appendix 1 to this Agreement.

17.2 TMPL intends to operate its system as efficiently as is practical, having regard to the flexibility shippers require to reschedule batches or make batch changes.

17.3 The Parties recognize that the level of service provided is dependent upon the commodity mix transported by TMPL and changes in the commodity mix may change the level of service or may result in further expenditures being required in order to maintain the level of service, in which case TMPL will seek support for a Non-Routine Adjustment as contemplated in Article 15.

18. TRANSACTIONS WITH AFFILIATES

18.1 TMPL will maintain books of account for the TMPL System in accordance with the requirements of the Oil Pipeline Uniform Accounting Regulations, as amended or replaced from time to time, and any applicable orders or directives of the NEB.

18.2 All transactions with Affiliates will reflect the fair value of goods or services provided to or acquired from such Affiliate and in accordance with TMPL's cost allocation study as approved by the NEB.

18.3 TMPL will neither offer nor provide transportation services, or provide access to or use of any assets or facilities forming part of the TMPL System, to an Affiliate on terms and conditions that are preferable to those stated in its NEB approved tariffs or provided to other shippers in similar circumstances.

18.4 TMPL will not disclose to an Affiliate, or to any other person, confidential or proprietary information provided to it by a producer, marketer, shipper or refiner of material transported on the TMPL System unless:

(a) TMPL has received consent from such producer, marketer, shipper or refiner;

(b) disclosure of the confidential or proprietary information is required by law or by order of any court or administrative tribunal exercising jurisdiction over TMPL; or

(c) the confidential or proprietary information is or becomes part of the public domain other than through the action of TMPL.

18.5 TMPL will ensure that all of its officers and employees are aware of and comply with the requirements of this Article.

18.6 If a shipper or other Party alleges or complains that TMPL has breached any provision of this Article, TMPL will:

(a) meet with the complaining Party in an attempt to resolve the concerns raised; and

(b) advise CAPP of the circumstances of the complaint and steps taken toward resolution.

If a satisfactory resolution cannot be agreed to by the parties concerned, the matter may be referred to the NEB for decision.

19. FILING REQUIREMENTS

19.1 On or before February 15 of each year TMPL shall provide CAPP, Chevron and the NEB a completed Schedule B, Monitoring Forecast of Tax Crossover Point, and Schedule A, Summary of Performance Measures, showing results of the prior year.

19.2 Except as it may be specifically agreed otherwise by TMPL and CAPP, all Toll adjustments (other than adjustments to the Westridge Dock Incentive Toll) will be filed by TMPL on or before February 15 of each year to have effect as of March 1 of that year. TMPL will file, and provide copies to CAPP, all schedules prescribed by this ITS as may be required to support such Toll adjustment.

19.3 TMPL will seek, and CAPP and Chevron will support, exemption by the NEB from all of the Toll filing requirements of NEB Order TO-3-92 and in particular, paragraph 5 thereof.

19.4 TMPL will seek, and CAPP and Chevron will support, exemption by the NEB from the requirement for TMPL to file annual financial forecasts, quarterly and monthly surveillance reports, and monthly throughput forecasts required by NEB Order TO-3-92, and the NEB

Memorandum of Guidance dated February 22, 1995, or any subsequent orders or directives by the NEB or substitution thereof.

20. AUDIT

20.1 TMPL shall provide an Annual Agreement Compliance Audit Report to the NEB, CAPP and Chevron. The Annual Agreement Compliance Audit Report will be provided to other shippers and interested parties upon request.

20.2 Upon reasonable notice to TMPL, CAPP may elect to have an additional audit, in accordance with CICA Handbook section 5805, performed to confirm the reasonableness of the costs attributable to the TMPL System and to confirm TMPL's compliance with the provisions of Article 18 hereof.

20.3 The auditors selected by CAPP pursuant to Article 20.2 must be a firm of Chartered Accountants and the audit must be conducted during normal business hours. TMPL will provide such auditors with reasonable access to the source data necessary for the conduct of the audit and to TMPL's audit files.

20.4 CAPP will not disclose to any person, confidential or proprietary information provided to it by TMPL and will require that its auditors sign an agreement to keep confidential all confidential or proprietary information provided by TMPL, unless:

(a) CAPP has received consent from TMPL;

(b) disclosure of the confidential or proprietary information is required by law or by order of any court or administrative tribunal exercising jurisdiction over CAPP; or

(c) is or becomes part of the public domain other than through the action of CAPP.

20.5 TMPL will reimburse CAPP for the cost of any audits undertaken on behalf of CAPP pursuant to Article 20.2, provided that the costs of such reimbursement, together with Carrying Charges, shall be recovered by TMPL as a Non-Routine Adjustment.

21. MISCELLANEOUS PROVISIONS

21.1 The Parties acknowledge that the NEB has exclusive jurisdiction over the establishment of TMPL's Tolls and that any matters respecting the derivation of Tolls under this Toll Settlement shall be determined by the NEB. In the event of a dispute respecting the matters agreed upon which has not been satisfactorily resolved after negotiations and/or mediation between the parties, they will jointly request that the NEB deal with such disputed matters on an expedited basis.

21.2 Should Statistics Canada cease to exist or cease to publish the documents referred to in this Settlement, or should the BOC Review cease to be published, TMPL and the Parties will, within 60 days of learning of such an event, meet and agree upon an alternate reference institution and/or publication as the case may be.

21.3 TMPL will at all times insure its property and potential liability exposures against loss or damage that would otherwise be borne by TMPL. Unless otherwise agreed by the parties hereto, the program of insurance shall provide coverage comparable to the level of coverage currently maintained by TMPL.

21.4 CAPP, Chevron and TMPL acknowledge that this ITS is subject to the approval of the NEB before it is of effect. The Parties agree that the provisions of Article 13 shall be severable if disallowed by the NEB during the term of the ITS. If the ITS is not otherwise approved in its entirety by the NEB, or if it is materially varied by subsequent order of the NEB, the ITS will be deemed to be disallowed and will no longer be binding on the Parties.

21.5 Commencing no later than November 2004, the Parties intend to meet to negotiate, in good faith, a further agreement to renew, extend or replace this ITS. All aspects of this ITS will be subject to renegotiation.

**INDEX OF SCHEDULES FOR
THE INCENTIVE TOLL SETTLEMENT**

Note: ✓ Schedules identified with this character contain numerical values that are used in the calculation of the 2001 Tolls.

SCHEDULE "A" TO
THE INCENTIVE TOLL SETTLEMENT
Summary of Performance Measures

Line		2000	2001	2002	2003
	A. Factors				
1	Cubic Meters / day (m^3 / d)	31,852	30,000	31,500	29,500
2	Cubic Meter Kilometres (000,000 m^3 km)	12,718	11,979	12,578	11,779
3	Kilometres of Pipe (km)		1146		
	Number of Employees - Staff Count				
4	Full Time Regular (positions)	243.8	243.8	243.8	243.8
5	Part Time Regular (FTE's)	2.1	2.1	2.1	2.1
6	Temporary (FTE's)	14.9	14.9	14.9	14.9
7	Summer Students (FTE's)	7.3	7.3	7.3	7.3
8		268.1	268.1	268.1	268.1

Line		2000	2001	2002	2003
	B. Performance Measures				
9	Operating costs excluding fuel and power ($millions)	55.50	52.50	54.08	55.16
10	Power Costs: $ per m^3	0.43	0.52	0.49	0.52
11	Interest Expense: ($000) per Net Plant ($000)	0.05	0.05	0.05	0.05
	Property Taxes:				
9	a. ($000) per km	16.14	16.14	16.14	16.14
10	b. Assessed value ($000) per km	492	492	492	492
11	Repairs & Maintenance ($000) per km includes Operating and Capital	27.15	18.23	22.41	17.89

Note(s):

[1] Repairs & Maintenance definition:
Includes: (1) Operating costs for Field & Head Office groups responsible for maintenance of the system, and (2) capital costs that are classified as repairs or maintenance type capital. Does not include upgrades, improvements or new additions.

SCHEDULE "B" TO
THE INCENTIVE TOLL SETTLEMENT
Monitoring Forecast of Income Tax Cross Over Point
($000)

Line		2001	2002	2003	2004
1	Total Depreciation	15,509	15,896	16,360	16,614
2	Total CCA Claim	16,615	16,501	16,189	15,662
3	Net Differences	(1,106.1)	(605.0)	171.0	952.0
4	Impact on Income Taxes Payable	(476.5)	(260.1)	73.5	409.3

Cross over point is expected to occur in 2003.

Occurs when the CCA < Depreciation

SCHEDULE "C" TO
THE INCENTIVE TOLL SETTLEMENT
Schedule showing the 2001 Base Toll and 2000 Adjustments
($thousands)

Line		Notes	2001 Base Toll	2000 [4] Adjustments	Total for 2001 Tolls
1	Starting Point - Unadjusted		101,074		101,074
2	2000 Starting Point Inflation Adjustment		888	944	1,832
3	Forecast Power Adjustment	[1]	(197)		(197)
4	Forecast Rebasing Amount [per agreed to provisions]		(4,931)		(4,931)
5	Forecast CPI escalation [2% of above components]		1,937		1,937
6	Forecast Long Haul Power Adjustment	[2]	1,755		1,755
7	Non-routine adjustments				
	Post retirement Benefits	ongoing	803		803
	Capital NRA's for Coquihalla - rebasing provision	ongoing	2		2
	Operating - Coquihalla & SCC	2000		(123)	(123)
8	Provision for Income Taxes Payable	[3]	11,533	(510)	11,023
9	Deferred Income Tax draw down			-	-
10	Transportation Revenue Variance			(439)	(439)
11	Efficiency Incentive			(4,758)	(4,758)
12	Oil Purchase	2000		3,658	5,301
	Oil Purchase	2001	1,643		
13	Tax Allowance Variance			1,397	1,397
Total Revenues Collected			**114,507**	**169**	**114,676**

Notes:

[1] Power Adjustment calculated on change in forecast volumes from 30,400 m³/d to 30,000 m³/d.

[2] Power Adjustment to recognize that BC volumes previously received at Kamloops are now injected at Edmonton.

[3] The Provision for Income Tax Payable has been split between 2001 Base Tolls and 2000 Adjustments.

[4] Carrying charges for 2000 Adjustments are calculated on all adjustments at the rate of 6.24%. No carrying charges have been included for the 2001 Oil purchase. Once the price is known and the variance between the forecast and actual price is calculated, carrying charges will be applied.

SCHEDULE "D" TO
THE INCENTIVE TOLL SETTLEMENT
Base Throughput for Tolls
Composition of Long and Short Haul Volumes

Line	Source	Destination	Type [1]	Distance kms	Deliveries *(m³/day)*	Annual cubic metre (000,000)
1	Edmonton	Kamloops	Refined Products	822	3,166	950
2	Edmonton	Burnaby	Crude	1,146	7,353	3,076
			Dock	1,146	-	-
			Refined Products	1,146	8,769	3,668
			MTBE	1,146	1,340	561
			Alkylate	1,146	-	
3		Total Burnaby Deliveries			17,462	7,304
4	Edmonton	Sumas	Crude	1,090	9,327	3,711
5	Edson	Sumas	Crude	861	45	14
6		Total Sumas Deliveries			9,372	3,725
7	**Total**				**30,000**	**11,979**

Note(s):
[1] "Refined Products" type includes volumes that are received directly into the mainline and into tankage.

SCHEDULE "E" TO
THE INCENTIVE TOLL SETTLEMENT
Revenue Banding Mechanism
Method for Calculation of the Actual Results (page 1 of 2)

				Downside		Upside	
Line	**Source**	**Destination**	**Type** [1]	**Deliveries** *(m^3/day)*	**Revenues** *($000)*	**Deliveries** *(m^3/day)*	**Revenues** *($000)*
1	Edmonton	Kamloops	Refined Products	3,166	9,749	3,398	10,463
2	Edmonton	Burnaby	Crude	7,053	28,676	8,075	32,831
			Dock - discounted	500	1,440	2,000	5,760
			Dock - undiscounted			200	831
			Refined Products	8,169	32,918	9,071	36,554
			MTBE	1,240	5,042	1,435	5,834
3	Remove discounted volumes/revenues			(500)	(1,440)	(2,000)	(5,760)
4		Total Burnaby Deliveries		16,462	66,635	18,781	76,051
5	Edmonton	Sumas	Crude	8,227	30,083	9,974	36,471
6	Edson	Sumas	Crude	-	-	100	304
7		Total Sumas Deliveries		8,227	30,083	10,074	36,775
8	**Total**			**27,855**	**106,466**	**32,253**	**123,288**
9	Average Toll [Revenues ÷ Deliveries]				10.4717		10.4727
10	Throughput Risk Band			28,500		32,000	
11	Volume Variance [Line 8 - Line 10]			(645)		253	
12	**Revenue (Shortfall) / Surplus** [Average Toll * Volume Variance * days in the year ÷ 1000]				**(2,465)**		**967**
	Annual Revenue to be included in subsequent year's tolls ($000)						
13	Net Revenue Deficit charged to Shippers [line 13 * .95 * 100%]				2,342		
14	Net Excess Revenues refunded to Shippers [line 14 * .85 * 50%]						(411)
15	Carrying Charges [line 13 & line 14 * 7.00%]				164		(29)
16	**Total revenue adjustment to be included in subsequent year's tolls**				**2,506**		**(440)**

Note(s):

[1] "Refined Products" type includes volumes that are received directly into the mainline and into tankage.

[2] For illustrative purposes, the Westridge Dock Incentive Toll has been set at $3.25 / m^3.

[3] The schedule for Annual Reporting will consist of the 2 columns - Deliveries and Revenues, showing the actual results.

SCHEDULE "E" TO
THE INCENTIVE TOLL SETTLEMENT
Revenue Banding Mechanism
Method for Calculation of the Actual Results (page 2 of 2)

Line					Downside		Upside
1	Net Deficit or Net Excess Revenues with carrying charges						
	a. Revenue adjustment from line 16 on Schedule "E-1"				2,506		(440)
	a. Forecast cubic meter kilometres (000,000)			11,979		11,979	
	b. Cubic meter kilometre charge ($ / m³-km)				**0.000209**		**(0.000037)**

Line							
2	**Impact on Tolls**						
	From	**To**	**Kilometres**	**Charge per $ / m³-Km**	**Toll Adjustment**	**Charge per $ / m³-Km**	**Toll Adjustment**
3	Edmonton	Kamloops	822	0.000209	0.172	(0.000037)	(0.030)
4		Sumas	1,090	0.000209	0.228	(0.000037)	(0.040)
5		Burnaby	1,146	0.000209	0.240	(0.000037)	(0.042)
6	Edson	Sumas	861	0.000209	0.180	(0.000037)	(0.032)
7		Burnaby	918	0.000209	0.192	(0.000037)	(0.034)

Line						
8	**Impact on Revenues** [1]					
	From	**To**	**Delivered Volumes** *m³ / d*	**Deficit Revenues** *($000)*	**Delivered Volumes** *m³ / d*	**Excess Revenues** *($000)*
9	Edmonton	Kamloops	3,200	200.9	3,050	(33.6)
10		Sumas	7,500	624.2	6,500	(94.9)
11		Burnaby	14,935	1,306.9	14,700	(225.7)
12	Edson	Sumas	50	3.3	40	(0.5)
13		Burnaby	-	-	-	-
14	Total Surcharge Collected / (Refunded)			2,135		(355)
15	Forecast Surcharge Recovery / (Refund)			2,506		(440)
16	Variance = Over Recovery			(371)		
17	Variance = Under Recovery					85
18	Carrying Charges [line 16 & line 17 * 7.00%]			(26)		6
19	**Total revenue to be included in subsequent year's tolls**			**(397)**		**91**

Note(s):

[1] Line 8 to Line 19 provide an example of the collected / refunded Revenue Deficit / Excess Revenues. Any variance between the revenues collected / refunded with cc's will be applied to subsequent year's tolls.

SCHEDULE "F" TO THE INCENTIVE TOLL SETTLEMENT

Method for Calculation of the Long Haul Power Adjustment and Variance

Line		BC	Alberta	Total
A. Calculation of the Long Haul Power Adjustment				
1	Incremental Power Consumption (mW-hrs) for 30,000 m³/day	5,538	17,079	22,617
2	Actual blended energy cost for BC ($/mW-hr)	28.60		
3	Forecast deregulated hedge price ($/mW-hr)		100.00	
	plus Riders & surcharges [1]		11.46	
	less Forecast 2001 rebate		(18.00)	
4	Net forecast cost of energy for Alberta ($/mW-hr)		93.46	
5	**Forecast Long Haul Power Adjustment for 2001 ($000)**	**158**	**1,596**	**1,755**
B. Calculation of Long Haul Power Adjustment Variance				
6	Actual blended energy cost for BC ($/mW-hr)	32.00		
7	Actual deregulated hedge price ($/mW-hr)		110.00	
	plus Riders & surcharges [1]		11.65	
	less Actual 2001 rebate		(17.00)	
8	Net actual cost of energy for Alberta ($/mW-hr)		104.65	
9	Variance between Actual and Forecast Power costs ($/mW-hr)	3.40	11.19	
10	Long Haul Power Adjustment Variance ($000) [line 1 * line 9]	19	191	210
11	Carrying Charges [line 10 * 7.00%]			15
12	**Total revenue to be included in subsequent year's tolls ($000)**			**225**
3. Forecast Cubic Metre Kilometre Charge				
13	a. Forecast cubic meter kilometres (000,000)			11,979
14	b. Cubic meter kilometre charge ($ / m³-km) [line 12 ÷ line13 * 1000]			**0.000019**

15 **Impact on Tolls**

Line	From	To	Kilometres	Charge per $ / m³-Km	Toll Adjustment
16	Edmonton	Kamloops	822	0.000019	0.015
17		Sumas	1,090	0.000019	0.020
18		Burnaby	1,146	0.000019	0.021
19	Edson	Sumas	861	0.000019	0.016
20		Burnaby	918	0.000019	0.017

Note(s):

[1] Incremental cost of riders & surcharges on increase in energy consumption.

[2] Long Haul Power Adjustment and Variance will be calculated annually.

SCHEDULE "G" TO
THE INCENTIVE TOLL SETTLEMENT
Method for Calculation of the Thoughput related Power Adjustment

Line			Option 1	Option 2
A. Calculation of Long Haul Power Adj. for Base Volumes < 30,000 m³/day				
1	Forecast Long Haul Power Adjustment ($000)		1,755	1,755
2	Forecast Long Haul Volumes reflected in Base Throughput (m³ / day)			
3	Edmonton to	Burnaby	2,587	2,587
4		Sumas	2,698	2,698
5			5,285	5,285
6	Pro-rata allocation of Long Haul Power Adjustment ($000)			
7	Edmonton to	Burnaby [line 3 / line 5 * line 1]	859	859
8		Sumas [line 4 / line 5 * line 1]	896	896
9	Forecast Crude Volumes reflected in Base Throughput (m³ / day)			
10	Edmonton to	Burnaby	7,353	7,353
11		Sumas	9,327	9,327
12	Actual reduction in crude deliveries (m³ / day)			
13	Edmonton to	Burnaby	(1,000)	0
14		Sumas	(2,000)	(5,000)
15	Power Adjustment ($000) for Base Throughput < 30,000 m³ / day from / to			
16	Edmonton to	Burnaby [line 13 / line 10 * line 7]	(117)	0
17		Sumas [line 14 / line 11 * line 8]	(192)	(480)
18	Power Adjustment ($000) [line 16 + line 17]		(309)	(480)
19	Carrying charges [line 18 * at 7.00%]		(22)	(34)
20	**Power Adjustment to be credited in the subsequent year's tolls ($000)**		**(330)**	**(514)**
2. Forecast Cubic Metre Kilometre Charge				
21	a. Forecast cubic meter kilometres (000,000)		11,979	11,979
22	b. Cubic meter kilometre charge ($ / m³-km) [line 20 ÷ line 21 * 1000]		**(0.000028)**	**(0.000043)**

23 **Impact on Tolls using Option 2**

	From	To	Kilometres	Charge per $ / m³-Km	Toll Adjustment
24	Edmonton	Kamloops	822	(0.000043)	(0.035)
25		Sumas	1,090	(0.000043)	(0.047)
26		Burnaby	1,146	(0.000043)	(0.049)
27	Edson	Sumas	861	(0.000043)	(0.037)
28		Burnaby	918	(0.000043)	(0.039)

SCHEDULE "H" TO
THE INCENTIVE TOLL SETTLEMENT
Method for Calculation of the Inflation Adjustment (IA)

Line		Sample Results	
1	Test: Is the annual CPI > 3.5%	No	
2	Impact on Toll for subsequent year [positive variances]	N/A	
3	Test: Is the annual CPI > 3.5%		Yes
4	Inflation Adjustment [Computational difference > 0, i.e., Actual = 5.5% - threshold = 3.5%]		**2.0%**
5	Impact of IA on subsequent years [positive variances at 75%]		**1.5%**
6	Estimated Carrying Charges [expressed as a percentage][1]		**0.1%**
7	**Impact on subsequent year's tolls** [line 5 + line 6]		**1.6%**

		Base Tolls	Inflation [2] Adjustment	Adjusted Tolls
8	**Impact on Tolls**			
9	Example for Edmonton to Burnaby Tolls			
10	Light Crude	11.139	1.60%	11.317
11	Alkylate	8.292	1.60%	8.425
12	MTBE	11.139	1.60%	11.317
13	Butane	10.998	1.60%	11.174
14	Refined Petroleum (Direct)	10.998	1.60%	11.174
15	Refined Petroleum (Tank)	11.139	1.60%	11.317

Note(s):

[1] Provision for carrying charges will be based on 75% of the adjusted Starting Point times the IA times the carrying charge rate.

[2] Once triggered, this will be a permanent adjustment to the tolls.

SCHEDULE "I" TO
THE INCENTIVE TOLL SETTLEMENT
Method for Calculation of the Property Tax Adjustment

Line		Sample Results 1 Test	Sample Results 1 Amount		Sample Results 2 Test	Sample Results 2 Amount
1	Current Year Actual Property Taxes		22,000			22,000
2	Prior Year Actual Property Taxes		20,000			20,000
3	Total Property Tax Increase ($000)		2,000			2,000
4	Test: Is the Property Tax Increase or Decrease > +/- 5.0%	Yes	5.0%		Yes	5.0%
5	Test: Is the IA Positive	Yes	1.5%		No	0.0%
6	Net Adjustment [1]		3.5%			5.0%
7	Revenue Adjustment [Surcharge / (Credit)] ($000) [line 2 * line 6]		700			1,000
8	Carrying Charges [line 7 * 7.00%]		49			70
9	Total revenue to be included in subsequent year's tolls ($000)		**749**			**1,070**
10	Impact on Tolls (Surcharge / (Credit))					
	a. Forecast cubic meter kilometres (000,000)			11,979		
	b. Cubic meter kilometre charge ($ / m³-km) [line 9 ÷ line 10 a. * 1000]		**0.000063**			**0.000089**

11 **Impact on Tolls using Sample Results 2**

	From	To	Kilometres	Charge per $/m³-Km [2]	Toll (Credit)/ Surcharge
12	Edmonton	Kamloops	822	0.000089	0.073
13		Sumas	1,090	0.000089	0.097
14		Burnaby	1,146	0.000089	0.102
15	Edson	Sumas	861	0.000089	0.077
16		Burnaby	918	0.000089	0.082

Note(s):
[1] For reductions in Property Taxes, the tests would be applied in the same fashion.
[2] Once triggered, this will be a permanent adjustment to the tolls.

SCHEDULE "J" TO
THE INCENTIVE TOLL SETTLEMENT
Method for the Calculation of the Oil Loss Allowance & Variance

Line				2001	2002
A. Forecast Oil Loss Allowance					
1	Deemed volume of oil purchased [.05% of 30,000 m³ / day * days in the year]			5,475	5,475
2	Forecast price	($CDN / m³)		300.00	285.00
3	**Forecast Oil Loss Allowance** ($000)			**1,642**	**1,560**

B. Forecast Oil Loss Allowance Variance [1]					
4	Actual price	($CDN / m³)		283.19	
5	Variance in price	($CDN / m³)	[line 4 - line 2]	(16.81)	
6	Oil Purchase Variance	($000)	[line 5 * line 1]	(92.04)	
7	Carrying charges		[line 6 * 7%]	(6.44)	
8	**Total revenue to be included in subsequent years tolls ($000)**		[line 6 + line 7]	**(98.49)**	
9	Impact on Tolls (Surcharge / (Credit))				
	a. Forecast cubic meter kilometres (000,000)				11,979
	b. Cubic meter kilometre charge ($ / m³-km) [line 8 ÷ line 9 a. * 1000]				**(0.000008)**

10 **Impact on Tolls**

	From	**To**	**Kilometres**	**Charge per $ / m³-Km**	**Toll Surcharge / (Credit)**
11	Edmonton	Kamloops	822	(0.000008)	(0.007)
12		Sumas	1,090	(0.000008)	(0.009)
13		Burnaby	1,146	(0.000008)	(0.009)
14	Edson	Sumas	861	(0.000008)	(0.007)
15		Burnaby	918	(0.000008)	(0.008)

Note(s):
[1] Oil Loss Allowance Variance will be computed annually and carrying charges applied to the variance.

SCHEDULE "K" TO
THE INCENTIVE TOLL SETTLEMENT
Impact of MTBE Conversion on Throughput Forecast
Composition of Throughput Forecast After Conversion to Alkylate

					After Conversion [2]		After Conversion for Revenue Banding [3 & 4]	
Line	**Source**	**Destination**	**Type [1]**	**Distance**	**Deliveries**	**cubic metre**	**Deliveries**	**cubic metre**
				kms	***(m³/day)***	**(000,000)**	***(m³/day)***	**(000,000)**
1	Edmonton	Kamloops	Refined Products	822	3,166	950	3,166	950
2	Edmonton	Burnaby	Crude	1,146	7,353	3,076	7,353	3,076
			Dock	1,146	-	-	-	-
			Refined Products	1,146	8,769	3,668	8,769	3,668
			MTBE	1,146	-	-	1,340	561
			Alkylate	1,146	1,800	753	-	-
3		Total Burnaby Deliveries			17,922	7,497	17,462	7,304
4	Edmonton	Sumas	Crude	1,090	9,327	3,711	9,327	3,711
5	Edson	Sumas	Crude	861	45	14	45	14
6		Total Sumas Deliveries			9,372	3,725	9,372	3,725
7	**Total**				**30,460**	**12,171**	**30,000**	**11,979**
	Alkylate conversion to MTBE Levels							
8	Alkylate Volumes				1,800			
9	Alkylate Volumes converted to MTBE levels at Conversion ratio						1,340	
10	Delivery Conversion ratio						74.4%	

Note(s):

[1] "Refined Products" type includes volumes that are received directly into the mainline and into tankage.

[2] The "Before" scenario is provided on Schedule "D".

[3] "After Conversion for Revenue Banding" shows the inclusion of the Alkylate volumes at the original MTBE level. The volume and revenue variances will be calculated using the converted forecast volumes and the full tolls.

[4] The actual volumes for Alkylate will also be converted back to the original MTBE level using the Delivery Conversion ratio times the actual volumes delivered.

SCHEDULE "L" TO
THE INCENTIVE TOLL SETTLEMENT
Calculation of Alkylate Incentive Toll

Line			Option 1 m^3/d >1340	Option 2 m^3/d <= 1340
1	Pipeline Deliveries of MTBE (m^3 / day)		1,340	1,340
2	Estimated Pipeline Deliveries of Alkylate (m^3 day)		1,800	1,340
3	Delivery Conversion Ratio	[line 1 ÷ line 2]	74.4%	100.0%
4	Base Toll ($ / m^3)		11.139	11.139
5	Incentive Toll ($ / m^3)	[line 4 * line 3]	8.292	N/A
6	Level of Incentive ($ / m^3)	[line 4 - line 5]	2.847	N/A
7	Revenue Proof ($000)	[line 1 * line 4 * .365]	5,448	
		[line 2 * line 5 * .365]	5,448	Not required

Note(s):
[1] Any Volume variance from the forecast will fall under the Revenue Banding Mechanism.

SCHEDULE "M" TO
THE INCENTIVE TOLL SETTLEMENT

Summary of Non-Routine Adjustments
($000)

Line		2001	2002 - 2005
	1. Unsuccessful Resolution of Energy Council Litigation		
1	Billing from Government	869	
2	Carrying Charges	341	
3	Balance at end of year	1,210	
4	**Total annual cost**		**302**
	2. Specifically Requested Costs not subject to limit [Schedules will be attached when required]		
5	Cost of new programs as result of NEB Order or resulting from legislation, regulations, orders or directions from any government authority in excess of limits		125
6	Cost of new programs as result of Shipper Requests		75
7	Additional Income Taxes Payable		-
8	**Total annual cost**		**200**
	3. Specifically Requested Costs subject to limit [Schedules will be attached when required]		
9	Cost related to major uninsured losses arising from Operations		
10	Cost of programs to address new or unanticipated failure mechanisms		
	a. Capital Related Costs		25
	b. Operating Costs		5
11	Costs of Port Mann Crossing Replacement		
	a. Capital Related Costs		125
	b. Operating Costs		26
12	**Total annual cost**		**181**
	4. Summary of Revenue Adjustments		
13	Total from subsections 1 and 2 above [lines 4 and 8]		502
14	Total from subsection 3 [lines 9, 10 & 11] with following limits:		
15	a. Test: If Total of subsection 3 above > $300K		-
16	b. Test: If Total of subsection 3 above < $300K and if Individual items are > $150K		151
17	c. Test: If Total of subsection 3 above < $300K and Individual items are < $150K		-
18	d. Carrying Charges estimated at 7% of lines 13 through lines 17 [1]		46
19	**Total Revenue Adjustments**		**699**
	5. Forecast Cubic Metre Kilometre Charge		
20	a. Forecast cubic meter kilometres (000,000)	11,979	
21	b. Cubic meter kilometre charge ($ / m^3-km) [line 19 ÷ line 20 * 1000]		**0.000058**

Note(s):

[1] Carrying charges will be added where applicable, i.e., on spent dollars.

Appendix to the Incentive Toll Settlement 2001-2005

Trans Mountain Service Levels

(November 2000)

1. Introduction

This appendix provides general information regarding Trans Mountain's current (calender year 2000) system operation and service levels and are applicable for deliveries through the Company's mainline system and the Corporation pipeline in Washington State. System operations and service levels may vary as throughput and commodity mixes vary. Actual system operations and service levels will however fully conform to the Company's obligations as a common carrier under the National Energy Board act, and where required, the Company's subsidiary obligations as filed with FERC.

Trans Mountain is obligated to provide transportation service pursuant to the terms and conditions specified by the tariff Rules and Regulations on file with the NEB, and in the case of Company's subsidiary pipeline, the FERC tariff. Service levels described in this appendix are not intended to amend those tariff Rules and Regulations.

The Trans Mountain system operations and services levels described in this Appendix are broken out into three sections: operations, procedures and reporting, and communications. The operations section describes general movements associated with the referenced throughput forecast. For the commodities shipped on the pipeline system these service levels generally describe normal routing and batching, ratability, predicted transit times, tankage utilization, batch sizes, Line Fill and quality and interface management issues. The procedures and reporting section outlines scheduling events, supply management and other general delivery information. The communications section provides a statement on Trans Mountain's general principles regarding communication to Trans Mountain's customer base.

Operations

(1) Description of "system"

Trans Mountain operates as a common carrier pipeline system. The system consists of a pipeline transporting crude oil, semi-refined and refined products owned by others from receipt locations in Edmonton and Edson, Alberta and Kamloops, British Columbia to delivery locations at Sumas and Burnaby, B.C.. Refined products are also delivered into Kamloops, British Columbia from refineries in Edmonton. A 100% wholly owned subsidiary pipeline, Trans Mountain Oil Pipeline Corporation, transports crude oil from Sumas, British Columbia to the refineries at Cherry Point, Ferndale and Anacortes in Washington State.

(2) Normal line routings

Trans Mountain provides a batch transportation service whereby light and heavy crude oil, refined products, synthetics and MTBE are transported, or batched, through the pipeline. These varying material types are sequenced in a specific order established to minimize quality impacts and interface handling. Since the Trans Mountain pipeline is a continuous 24-inch diameter pipe, with the exception of a 50 mile segment of 30-inch diameter pipe between Edson and Hinton, Alberta, the batch configuration generally follows established limits. The fact that Trans Mountain's system is comprised of a single pipeline does not allow for the ability to segregate volumes by assigning commodities to distinct and separate pipelines. In the Trans Mountain system all commodities travel down the same pipeline.

At Edson, Alberta volumes are received into the mainline from a truck off-loading facility owned by others. These volumes are either injected into a passing batch or the mainline upstream is shut down while a batch from Edson is pumped out.

At Kamloops, B.C. refined products are delivered to either the Imperial or PetroCanada distribution terminals. North-east B.C. crudes are also received into the system at Kamloops from the Federated Western system. Crude received at Kamloops is either injected into the passing batch or, through the use of breakout tankage at Kamloops the mainline is diverted while a distinct Kamloops injection is undertaken. The diverted mainline is subsequently pumped back out following completion of the Kamloops pumping.

At Sumas, B.C., light sweet and sour crude is transferred to the Corporation pipeline for delivery to Washington State refineries. Prior to transfer to the Corporation pipeline these volumes may reside in tankage at Sumas.

At Burnaby, B.C. deliveries are made to either the Chevron refinery or to the various product distribution terminals. Volumes are also aggregated at the Burnaby tank farm for subsequent export deliveries via Westridge dock.

(3) Batch Train Configuration

The Trans Mountain system is unique in that crude petroleum, refined and semi-refined products, synthetics and MTBE are all transported through the same pipeline in a process known as batching. Specific batching configurations have developed over time as the system increased it's proportion of refined products and crude types. Originally, the Trans Mountain system was entirely a crude oil pipeline but has since evolved with the needs of its shippers and currently transports approximately 40% refined products.

Individual batches in the pipeline are carefully organized into a batch train with consideration for quality issues, interface handling and ratability. When possible compatible crude types are pumped adjacent to one another, with refined product batch trains pumped at regular intervals over the month. There are generally 6-7 product trains pumped per month and a general guideline that no product train exceeds approximately 100,000 m^3 in total batch size. Limitations on product train sizes and batch configurations in general are intended to satisfy regular deliveries to all shippers while taking account of each downstream consignees specific handling capabilities.

(4) Batch Ownership

Nominated volumes from producers, marketers and refiners are received each month and scheduled through the system to the identified delivery location. The ownership of the batches within the system is dependant upon the delivery destination and the batch composition.

Refined product deliveries to Kamloops typically move entirely for the account of the downstream delivery consignee. Deliveries into Burnaby for both the refinery and distribution terminals move so as well.

Light sweet and sour crude batches into Washington State may be handled somewhat differently than either product or crude deliveries into Burnaby. Washington State delivery volumes are allocated to shippers on a percentage basis. Delivery allocations to some Washington refiners are based upon the percentage of a specific crude type a particular shipper is moving, versus the aggregate of that crude type to the specific delivery designation. At the close of the month when actual feeder pipeline splits are known, adjustments to delivery allocations may be necessary. In this regard a batch moving to a Washington State refinery may have more than one shipper of record attached to the batch, the percentage of ownership being dependant upon the individual shipper's nomination of a particular crude type relative to the entire volume of that crude type to the destination refinery.

(5) Ratability Statement

Trans Mountain's objective is to operate it's system such that nominations are pumped and deliveries are made on a ratable basis. Due consideration is given to the unique requirements of the diverse delivery locations. In addition quality, handling issues and system throughput levels will influence ratability..

(6) Predicted transit times

Transit times are dependent upon the level of nominations for the month. The following table indicates expected transit times for various throughput levels.

Transit Time Tables										
	Originating Location (days between locations)									
	Edmonton					*Kamloops*				
*Flow Rate (m^3/day *1,000)*	**26.4**	**30.0**	**33.6**	**37.2**	**40.8**	**26.4**	**30.0**	**33.6**	**37.2**	**40.8**
Destinations										
Kamloops	**9.2**	**8.1**	**7.2**	**6.5**	**6.0**	--	--	--	--	--
Sumas	**12.0**	**10.5**	**9.4**	**8.5**	**7.7**	**2.7**	**2.4**	**2.2**	**1.9**	**1.8**
Anacortes	**12.6**	**11.1**	**9.9**	**9.0**	**8.2**	**3.4**	**3.0**	**2.7**	**2.4**	**2.2**
Burnaby	**12.6**	**11.1**	**9.9**	**9.0**	**8.2**	**3.4**	**3.0**	**2.7**	**2.4**	**2.2**

(7) Tankage Utilization

Receipt, breakout and delivery tankage is required for the transportation of the material types moved on the Trans Mountain system. Some refined products are directly injected into the mainline and hence by-pass direct tankage. Retention time in tankage for batches delivered on the Trans Mountain system is dependant upon monthly throughput rates and the requirements of the downstream delivery destination and the receipt rates from the upstream feeder lines and associated refineries in Edmonton.

(a) Receipt Tankage

Trans Mountain has receipt tankage at Edmonton and Edson. Receipt tankage is designed to gather / collect / accumulate incoming volumes until such time that the volumes are scheduled to pump. Retention time in receipt tankage is dependant upon throughput levels and existing commodity types. Retention times will be greater for those material types which, due to size, require aggregation prior to pumping.

Trans Mountain may also be requested to hold a batch, or to accumulate a batch volume over time. Requests to hold or accumulate batches are considered by Trans Mountain on an individual basis with consideration to the entire pipeline operation and the overall shipper impact.

(b) Breakout Tankage

Trans Mountain has breakout tankage at Edson, Kamloops and Sumas. Breakout tankage is designed to store volumes while pumpings are underway, or to temporarily hold volumes awaiting delivery to downstream destinations. Breakout tankage is also utilized during maintenance activities to aid in nitrogen purging of volumes from the pipeline. Retention time in breakout tankage is dependant upon throughput levels and system requirements.

(c) Delivery Tankage

Trans Mountain has delivery tankage at Burnaby. Delivery tankage is provided at Burnaby to allow ratable and scheduled deliveries to downstream designated locations or to accumulate volumes for exports off Westridge dock.

(8) Batch Sizes

(a) Minimum Batch Size

Minimum batch sizes are generally restricted to 8,000 m^3 for delivery to one consignee and destination. In general, minimum batch sizes are necessary due to the level of interface generation while transiting through the mainline. In some instances batch sizes below 8,000 m^3 are accepted for delivery if preceded or followed by like material, or for the account of a downstream consignee accepting the lower volumes. An example of batch size below typical minimums would be a refined product buffer necessary to ensure product quality or segregation of the main batches within the train.

(b) Maximum Batch Size

Maximum batch sizes are dictated by ratability concerns for all material types through the system and also influenced by reasonable power requirements. In addition, receipt and delivery tankage availability and other operational considerations will limit batch sizes. Typically a distinct batch will not exceed 20,000 m^3 in size.

(c) Maximum Batch Train

Maximum batch trains, typically made up of refined products, are necessary in order to ensure ratable deliveries to other consignees and to allow for normal maintenance activities. Trans Mountain's maximum batch train is generally 100,000 m^3.

(9) Line Fill

Line Fill is a term used to describe the specific volume in the pipeline system for a particular Shipper at a particular point in time. It is typically measured at month end for inventory control purposes and shipper balances. Line fill is comprised of the Shipper's volume held in the pipeline and station lines, tank bottoms and possibly working stock.

(10) Quality Control and Interface Management

To manage the interface and quality between the various batches traversing the system, Trans Mountain employs a variety of handling techniques. Batches of adjacent similar crude are typically cut at a mid-point interface, though alternate handling techniques are possible with concurrence between the affected shippers. Interfaces with heavy crude, or those material types which may degrade the preceding or proceeding batch, will typically be cut on density and the interface will be the responsibility of the atypical material type. Arrangements for interface handling are determined and agreed upon between affected parties and Trans Mountain prior to the batch entering the pipeline.

(11) Quality Testing and Sampling

Trans Mountain currently maintains light sweet and sour crude segregation by feeder line at its tank farm in Edmonton. In addition, tanks are also allocated to refined product service, heavy crude, condensate and MTBE.

Petroleum sampling is undertaken in accordance with API Standards and accepted practices in order to confirm the quantity and quality of petroleum received and delivered. Representative samples of pumped batches are collected over the entire batch through automatic line sampling devices. Testing of these samples is then undertaken to determine the levels of basic sediment and water contained within the batch. This information is used to calculate the net cubic metre volume of merchantable petroleum and to ensure that the tariff requirements for no more than 0.5% BS&W are met.

In addition to regular testing for BS&W, Trans Mountain also performs routine oil analysis, consisting of 8 different physical and chemical tests, for each crude type at least once per year. More frequent testing is undertaken on an as-needed basis. The results of these tests are published in the TRANS MOUNTAIN PIPE LINE PETROLEUM PROPERTIES MANUAL on an annual basis.

Procedures

Trans Mountain scheduling procedures commence for a given calender month with Notices of Shipment provided by the shippers on dates as per the COLC calendar. If apportionment is called, Trans Mountain will verify the nominated volumes submitted. If following nomination verification, apportionment still exists then each material type nominated will be apportioned on a proportionate basis for verified volumes.

Once nominations are submitted, the compiling of the next months schedules commences. The completion of the next month's scheduling is typically complete within 5 business days following nomination close. Revisions to pipeline schedules occur daily throughout the month when conditions or nominations are revised.

Reporting

The reporting of information to shippers regarding supply and the management of stock within Trans Mountain is regularly undertaken. The following table is indicative of the reporting involved.

Supply Management Activities		
Process	Activity	Reporting
Nominations	Due on a specific date and time as specified in Trans Mountain's tariff	Nomination due date issued to all shippers within last month of year proceeding nomination calendar
Apportionment	Nomination information is compiled to determine if apportionment required If required, announced the afternoon of the day after nominations are due. Revised notice of shipment's due back 24 hours from time of announcement	Trans Mountain issues letter to all shippers, feeder pipelines and interested parties

Supply Management Activities		
Ticketing	Tickets are collected from the field locations twice per month	No reporting
Month-end Splits	Feeders notified of month-end total deliveries to Trans Mountain by the end of the 2nd working day of the new month for the previous month Feeders provide to Trans Mountain month-end splits by 3rd working day, or in the case of receipts from Federated Western, by the 8th working day	No reporting
U.S delivery schedule allocated by shipper	Estimated and actual delivery data for Washington State deliveries by shipper	Sent to consignees and shippers by request every Tuesday
Refined product report	Indicates anticipated delivery times and volumes for refined product deliveries following consultation with shipper	Sent to affected shippers twice weekly
Monthly shippers balance	Issued on the 9th working day of each month	Trans Mountain issues monthly shippers balance statement
Tariff invoicing	Issued on the third working day after the 15th and the 3rd working day after the last working day of the month	Trans Mountain issues tariff invoices

Communications

Trans Mountain's throughput levels are currently such that capacity constraints are not an issue. Planned or unforeseen events which will materially affect or disrupt schedules to the extent that deliveries will be impacted will be discussed with the relevant parties within two business days, or sooner if deliveries are planned to occur. If disruptions are anticipated to be of sufficient magnitude to have the potential of affecting the Shipping community at large then an "All Shipper and Interested Parties" bulletin will be issued within two business days.

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